



***Final  
Report***

# **County of San Diego, California**

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**Auditor and Controller**

## **Kearny Mesa Little League Audit**

Office of Audits & Advisory Services

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**September 2008  
Report No. A09-003**



# COUNTY OF SAN DIEGO

## INTER-DEPARTMENTAL CORRESPONDENCE

September 30, 2008

TO: Tracy M. Sandoval  
Assistant Chief Financial Officer/Auditor and Controller

FROM: Kenneth J. Mory  
Chief of Audits

FINAL REPORT: KEARNY MESA LITTLE LEAGUE AUDIT

Enclosed is our report on the Kearny Mesa Little League Audit. The report includes audit findings and other pertinent information.

Thank you for the opportunity to be of service to your office.

If you have any immediate concerns about the report, please contact me at (858) 495-5662.

  
KENNETH J. MORY  
Chief of Audits

AUD:LF:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer  
Ebony N. Shelton, Group Finance Director, Finance and General Government Group

## **EXECUTIVE SUMMARY**

The Office of Audits & Advisory Services (OAAS) completed a compliance audit of the Kearny Mesa Little League (KMLL) grant agreement at the request of the Auditor and Controller. The objective of the audit was to evaluate KMLL's compliance with specific grant agreement terms and to determine whether expenditures were appropriate, valid, and adequately documented.

OAAS determined that the grant provided to KMLL by the County of San Diego (County) for the construction of a new concession stand was grossly mismanaged. Based on interviews with the KMLL Board's former President and Treasurer (former President and Treasurer), OAAS determined that grant monies were commingled with personal bank accounts. OAAS also found evidence of personal checks being used to pay vendors for grant related expenditures. Further, after repeated assurances that certain key documents were forthcoming to OAAS, the former President and Treasurer missed their self-imposed deadlines and failed to provide such records. These issues raised concerns that County funds may have been used for inappropriate purposes.

OAAS interviewed the KMLL Board member whose signature appeared as the co-signer on the KMLL Grant Agreement. She stated that her signature had been forged. She further stated that the printed name appeared to be the former Treasurer's handwriting.

OAAS also obtained a photocopy of the invoice submitted by the former Treasurer to County staff as proof of payment of a grant related expense. When compared to the original invoice, submitted at a later date, OAAS determined that the photocopy had been deliberately altered to increase the expense amount claimed.

Last, OAAS found that the KMLL was in breach of contract by failing to secure liability insurance as required by the grant agreement with the County and as specified by the City of San Diego building permit requirements.

Based on our audit work, OAAS concluded that there was sufficient evidence of possible fraud, forgery, and/or embezzlement. As such, OAAS have referred this audit to the District Attorney's Office for criminal investigation.

## **INTRODUCTION**

The County of San Diego's (County) fiscal condition has enabled it to reinvest taxpayer funds in the community to benefit the public by providing grant funds to community-based organizations that assist in meeting the social, cultural, and recreational need of County residents. These funds are provided to organizations through the Community Projects Program (CPP). This program is a discretionary program wherein each Board member recommends the allocation of grant monies based on proposals offered by not-for-profit organizations.<sup>1</sup> All proposed grant awards are voted on by the Board as a whole as they are periodically brought forward throughout the year to scheduled Board meetings. The Auditor and Controller's Office of Financial Planning (OFP) acts as the CPP's fiscal agent for the Board of Supervisors.

## **BACKGROUND**

On June 20, 2006, the Board of Supervisors allocated \$45,000 from the CPP budget to the Kearny Mesa Little League (KMLL) for the construction of a new concession stand subject to the league raising matching funds in the amount of \$45,000.

Owing to KMLL Board's former members allegations concerning the management and use of grant funds and to insufficient expenditure records provided to the County by the KMLL Board's former Treasurer, the Auditor and Controller (A&C) requested a contract compliance audit of the KMLL grant agreement.

## **AUDIT SCOPE AND LIMITATIONS**

The objective of the audit was to evaluate KMLL's compliance with grant agreement terms and conditions. The scope of the audit was limited to determining whether grant expenditures were appropriate, valid, and adequately documented in accordance with grant requirements.

OAAS' ability to fully execute the audit was limited as certain key documents were not provided as requested. These documents were necessary for OAAS to trace the use of grant monies; therefore, OAAS could not validate grant disbursements or determine whether unused grant funding was appropriately safeguarded.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

## **METHODOLOGY**

OAAS implemented a multi-faceted methodology to conduct the audit. The following bullets briefly highlight the methods used:

- Reviewed the terms of the grant agreement with KMLL;
- Visited the concession stand to determine the condition of the construction project;

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<sup>1</sup> At the beginning of each fiscal year, the Board of Supervisors budgets \$10 million in the General Fund for Community Project Grants. Each board office may allocate as much as \$2 million annually. Unused balances at the end of the fiscal year revert to the General Fund and are not carried over to the next fiscal year.

- Reviewed available documentation related to the construction project;
- Contacted and interviewed City of San Diego staff to determine their involvement in the construction project;
- Obtained grant expenditures original invoices and receipts from the KMLL Board's former President and Treasurer;
- Verified the validity of invoices and receipts by contacting vendors and determined whether payment was made;
- Identified and validated donations received by the KMLL for the construction of the concession stand; and
- Conducted interviews with the Office of Financial Planning (OFP) staff, Board of Supervisor's Office staff, Little League District Office staff, and KMLL Board Members (former and current members).

### AUDIT RESULTS

Based on our audit work, OAAS concluded that there was sufficient evidence of possible fraud, forgery, and/or embezzlement. As such, OAAS have referred this audit to the District Attorney's Office for criminal investigation.

The following details the results of the audit:

#### **Finding I: Strong Indicators of Fraud, Forgery, and Embezzlement**

Audit work found that the grant provided to KMLL for the construction of a new concession stand was grossly mismanaged. Based on our audit, OAAS determined that grant funds were commingled with the KMLL Board's former President and Treasurer (former President and Treasurer) personal bank accounts which may have resulted in funds being used for personal purposes. Also, grant recipients were unable to provide sufficient and reliable records to allow OAAS to trace grant monies and determine the current status and the availability of unused funds.

The lack of adequate management of grant funds and insufficient documentation to support project related expenditures are key indicators of the possibility of fraud and embezzlement. Specifically, the following issues were noted:

**Former Board President and Treasurer Retained Sole Control of Grant Funds** – OAAS interviewed KMLL Board members (the Board) to determine their awareness of the County grant provided to KMLL. Our interview data found that, while the Board was informed that the County had allocated \$45,000 in grant funding for a new concession stand, they were unaware that the funding was formally awarded to KMLL, the corporation. According to our interviews, the County grant was administered in its entirety by the former President and Treasurer (husband and wife). Additionally, the former President informed the Board that County funding was directly presented to him to manage the construction project and administer the funds.

OAAS found that upon receipt of the \$45,000 County check on September 29, 2006, the former President and Treasurer opened a checking and a savings bank account with Wells Fargo bank under the name of Kearny Mesa Little League. Information obtained from the bank indicates that \$20,000 was deposited into a checking account and \$19,250 into a savings account.

Additional information from the bank indicates that both accounts were closed and the funds were withdrawn.

After repeated assurances that bank statements were forthcoming to OAAS, the former President and Treasurer were unable or unwilling to provide records to document accountability of grant funding and disclose where the money was deposited following the closure of the Wells Fargo bank accounts. Further, these individuals were reluctant to disclose to OAAS specific information regarding the initial deposit of grant funds (\$39,250), the use of the \$5,750 that was not deposited, and any unused grant monies.

According to Board members contacted by OAAS, the Board continuously asked the former President and Treasurer for a financial status report on the County grant. They refused to disclose detailed information regarding the grant claiming that it was not the Board's responsibility. According to our interviews, these individuals were extremely hostile when the subject was addressed during Board meetings.

Our audit work found that the first financial status report for the construction project provided to the Board was prepared on May 2008. The former Treasurer presented a spreadsheet to the Board indicating that \$24,980 had been spent and \$26,700 had been received in donations. No additional information was provided regarding the balance of the grant.

***Alleged Signature Forgery*** – The original grant agreement between the County and KMLL included signatures for the former President and the Board Assistant Treasurer/Safety Insurance/Risk Management Chair. OAAS interviewed the individual whose name had been signed as the Assistant Treasurer and inquired about the acceptance and receipt of the County grant. This individual stated that her signature on the grant agreement had been forged. She stated that she never signed such contract or authorized the signature. Additionally, she indicated that while she is an active member of the KMLL Board, her position has always been Safety and Insurance Chair with no financial related responsibilities. This individual also stated that the printed name appeared to be the former Treasurer's handwriting.

***Inability to Provide Accountability of Grant Funds*** – OAAS met with the former Treasurer and requested original receipts, paid invoices, canceled checks, bank statements that show grant funds deposit and disbursements, and verification of existence of unused funds. While the former President and Treasurer provided limited receipts and invoices to OAAS, they did not provide bank statements or any other reliable bank related information. Upon our review and validation of the documentation provided, OAAS found the following:

- Validated receipts and paid invoices totaled \$19,730.
- Donations received for the construction project (labor and/or materials) amounted to approximately \$28,188.<sup>2</sup>
- Unpaid invoices totaled \$6,575.<sup>3</sup>

<sup>2</sup> Donation amount was determined with the assistance of a former KMLL Board member who actively participated in the construction project and donated labor and materials. Amounts were based on the current average price of materials and/or labor.

<sup>3</sup> Vendors that indicated they had outstanding balances are: Commercial Plumbing, (858)245-0240, \$5,525; APV Plastering, (619)252-9052, \$500; and Strait-Line Cutting & Coring, (619)589-1844, \$550.

OAAS successfully contacted 11 of the 18 vendors listed on the invoices provided and found that the majority of payments were made with a personal check, money order, or credit card from the former President and Treasurer's bank account. Four vendors, including the City of San Diego, indicated that the checks were returned unpaid for insufficient funds more than one time.

Based on our research, it was determined that grant funds were commingled with the former President and Treasurer's personal bank account. However, due to the lack of sufficient documentation, OAAS was unable to determine whether grant funds were used for personal expenses. Further, OAAS was unable to ascertain if unused grant funding of \$25,270 was still available.

***Deliberately Altering Invoice Amount*** – On July 25, 2008, the former Treasurer submitted copies of receipts and invoices to OFP staff related to grant expenses totaling approximately \$24,423. Upon OAAS' review of these documents, it was determined that some of the records received were insufficient or invalid. OAAS also compared these documents to the original invoices received by OAAS for reconciliation purposes. As a result, OAAS found that a photocopy invoice initially sent to OFP had been deliberately altered to claim expenses of \$8,850 instead of \$3,850 shown on the original invoice. OAAS contacted the vendor and verified that the actual amount on the invoice totaled \$3,850.

#### **Finding II: Non-compliance with Contract Terms and Conditions**

OAAS found that the contract with KMLL was breached by failing to secure liability insurance. According to the grant agreement terms and to City of San Diego specifications for the construction of the project, KMLL was required to maintain liability insurance for the duration of the construction project. Our review of the documentation received from the former Treasurer indicates that a 90 day insurance policy was obtained in May 2007 and expired on July 30, 2007. OAAS contacted the insurance company and they stated that the insurance policy was not renewed. The former President and Treasurer were unable to provide additional insurance records to verify renewed insurance coverage.

#### **Other Pertinent Information:**

The following two issues were not funded by the County of San Diego and were, therefore, not within the scope of our audit. However, they were brought to our attention by the KMLL Board and District 33, the National League Administrator, and were also referred to the District Attorney's Office for criminal investigation.

During the performance of this audit, allegations were made by KMLL Board members against the former Treasurer regarding the management of the concession stand. The individuals contacted by OAAS indicated that when the concession stand was administered by the former Treasurer they had constant losses. However, since the concession stand is under new administration, they have seen an increase in revenue.

Further, in July 2005, there were formal league allegations of wrongdoing against the former Treasurer by a KMLL Board's former member. These allegations, among other financial issues faced by the league in September 2007, prompted a formal review conducted by District 33 at

the beginning of 2008. OAAS interviewed District 33 staff responsible for conducting such review and determined that, while they found no evidence of fraud, they found gross mismanagement of funds. As a result, the former Treasurer was removed from the treasurer position.

### **COMMENDATION**

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the Kearny Mesa Little League, the League Administrator District 33, the Board of Supervisor's Office, and the Office of Financial Planning officers and staff throughout this audit.

### **AUDIT TEAM**

Laura R. Flores, Senior Auditor, CIA, CGAP (Project Lead)  
Kenneth J. Mory, Chief of Audits  
James Pelletier, Senior Audit Manager